To: Danielle Bastarache  
Deputy Assistant Secretary for Public Housing and Voucher Programs, PE

David Vargas  
Deputy Assistant Secretary for Real Estate Assessment Center, PX

//signed//

From: Todd M. Hebert  
Acting Regional Inspector General for Audit, 1AGA

Subject: HUD Could Strengthen Controls Over Employee Benefits Expensed at Public Housing Agencies

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General’s (OIG) final results of our audit of HUD’s controls over employee benefits expensed at public housing agencies.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 617-994-8380.
Audit Report Number: 2020-BO-0001
Date: August 12, 2020

HUD Could Strengthen Controls Over Employee Benefits Expensed at Public Housing Agencies

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development’s (HUD) controls over employee benefits expensed at public housing agencies (PHA) due to a previous external review of the Waterbury, CT, Housing Authority, which determined that employee benefits expensed were unsustainable. Our audit objective was to determine whether HUD ensured that employee benefits expensed at PHAs were reasonable.

What We Found

Analysis of PHA data showed that generally, PHAs expensed employee benefit contributions reasonably; however, HUD could strengthen controls in this area. Federal regulations indicate that employee benefit contributions are allowable provided that the benefits are reasonable and are required by law. Further, the average percentage of employee benefits to total compensation for State and local government employees nationally was 31 percent and the PHA data we reviewed showed that employee benefits were generally within the national average. However, 69 of 3,755 PHAs expensed at least $100,000 in employee benefit contributions over 40 percent of total compensation, which may be unreasonable. In addition, PHAs did not always enter accurate financial data regarding employee benefits into the Financial Assessment Subsystem – Public Housing (FASS-PH) system. This condition occurred because HUD did not have specific controls over employee benefit contributions and generally did not review those costs as they were controlled mostly by State laws governing pension plans and negotiated labor union agreements. In addition, PHA financial data received by HUD were at a combined level, which prevented it from easily reviewing benefit costs without having the transaction-level detail required for a meaningful review. As a result, HUD did not have assurance that employee benefit contributions expensed at 69 PHAs were reasonable or that the data entered into FASS-PH were accurate.

What We Recommend

We recommend that HUD (1) evaluate the risk that employee benefit contributions expensed at PHAs may be unreasonable and (2) develop and implement additional guidance to ensure that PHAs enter accurate employee benefit data into FASS-PH.
# Table of Contents

Background and Objective ........................................................................................................ 3

Results of Audit ......................................................................................................................... 4

Finding: HUD Could Strengthen Controls Over Employee Benefits Expensed at Public Housing Agencies ................................................................................................................. 4

Scope and Methodology ............................................................................................................. 7

Internal Controls ......................................................................................................................... 9

Appendix ..................................................................................................................................... 10

A. Auditee Comments and OIG’s Evaluation ............................................................................ 10
Background and Objective

The U.S. Department of Housing and Urban Development (HUD) funds more than 4,000 public housing agencies (PHAs). HUD’s Office of Public and Indian Housing administers HUD’s public housing programs, which provide direct payments to PHAs to develop and operate housing for low-income families. HUD created the Real Estate Assessment Center (REAC) to centralize and standardize the way it monitors its programs. The Financial Assessment Subsystem – Public Housing (FASS-PH) system helps HUD measure the financial condition of PHAs. HUD requires PHAs to enter their financial statements into FASS-PH 9 months after their fiscal year-end. 1 REAC reviews the financial statements to assess the financial condition of the PHAs and compliance with financial requirements.

In FASS-PH, PHAs report their contributions for employee benefits categorized by employee type, such as administrative and maintenance employees. Employee benefits include costs for pension, retirement, and health and welfare plans. Although FASS-PH includes these employee benefit line items and HUD provides the majority of funding for PHAs that expense current and post-employment employee benefits, HUD did not have specific controls for reviewing the reasonableness of employee benefits. Of the more than 4,000 PHAs, 3,755 expensed more than $950 million in employee benefit contributions during fiscal year 2017.

Since HUD did not have specific controls over employee benefits, we reviewed external sources to establish a reasonable benchmark. Specifically, the U.S. Department of Labor, Bureau of Labor Statistics, published a news release in September 2018, entitled Employer Costs for Employer Compensation – June 2018. The news release reported that the average salary and benefit costs per hour worked for State and local government employees were $31 and $14, 2 respectively, for June 2018. The percentage of employee benefits to total compensation was 31 percent. 3 We used this percentage as a benchmark for reviewing employee benefits expensed at PHAs.

Our audit objective was to determine whether HUD ensured that employee benefits expensed at PHAs were reasonable.

---

2 The Bureau of Labor Statistics reported benefits at $18.50. However, HUD’s Financial Data Schedule line items for employee benefit contributions did not include supplemental pay, paid leave, and workers’ compensation under benefits. Therefore, we excluded these benefit items, resulting in benefit costs per hour of $14.
3 Total compensation equals salaries plus benefits \( \frac{14}{(31+14)} = 31 \text{ percent} \).
Results of Audit

Finding: HUD Could Strengthen Controls Over Employee Benefits at Public Housing Agencies

Analysis of PHA data showed that generally, PHAs expensed employee benefit contributions reasonably. The average percentage of employee benefits to total compensation for State and local government employees nationally was 31 percent. However, according to fiscal year 2017 FASS-PH data, 1,258 of 3,755 PHAs (or 33.5 percent) had benefits compared to total compensation greater than the 31 percent national average. Using the 31 percent average as a benchmark, we concluded that a percentage of employee benefits to total compensation that met or exceeded 40 percent may be unreasonable. We found 69 PHAs (or only 1.8 percent of the 3,755 PHAs) that expensed at least $100,000 in employee benefit contributions over 40 percent of total compensation. Further, the PHAs did not always enter accurate financial data regarding employee benefits into FASS-PH. This condition occurred because HUD did not have specific controls over employee benefit contributions and generally did not review those costs as they were controlled mostly by State laws governing pension plans and negotiated labor union agreements. In addition, PHA financial data received by HUD were at a combined level, which prevented it from easily reviewing benefit costs without having the transaction-level detail required for a meaningful review. As a result, HUD did not have assurance that employee benefit contributions expensed at 69 PHAs were reasonable or that the data entered into FASS-PH were accurate.

Analysis of National PHA Data on Employee Benefit Contributions

Regulations at 2 CFR (Code of Federal Regulations) 200.300(a) require HUD to manage and administer the Federal award in a manner so as to ensure that Federal funding is expended and associated programs are implemented in full accordance with all relevant requirements. Regulations at 2 CFR 200.431(a) indicate fringe benefit costs are allowable provided that the benefits are reasonable and are required by law, a non-Federal entity-employee agreement, or an established policy of the non-Federal entity. For fiscal year 2017, in FASS-PH, PHAs reported employee benefit contributions and total compensation of more than $950 million and $3 billion, respectively. The U.S. Department of Labor, Bureau of Labor Statistics, reported that the average salary and benefit costs per hour worked for State and local government employees were $31 and $14, respectively, for June 2018. The percentage of employee benefits to total compensation was 31 percent, which was consistent with the employee benefit contributions expensed at PHAs. However, there are no HUD regulations or written guidance that define what is reasonable or that provide a standard to determine reasonableness. The total number of PHAs

---

4 The nationwide data in fiscal year 2017 included data for 3,755 PHAs. However, for 192 of those PHAs, the data did not include amounts for administrative or maintenance salaries and benefits. The reported amounts were $0.
5 See footnote 3.
6 See footnote 2.
that had benefits compared to total compensation greater than the national average of 31 percent was 1,258 (or 33.5 percent of the 3,755 PHAs) with total benefits over 31 percent of more than $113 million. Of those, 69 PHAs expensed at least $100,000 in administrative and maintenance employee benefit contributions over 40 percent of total compensation. For these 69 PHAs, administrative and maintenance employee benefit contributions greater than 40 percent of total compensation equaled more than $25 million. According to REAC officials, they generally did not review employee benefits expensed at PHAs as those costs were managed by each PHA. In addition, REAC officials said the expenses were generally out of HUD’s control because of State laws governing pension plans and negotiated labor union agreements. Further, PHAs reported only combined data, not the transaction-level data maintained at the PHA level, making it difficult to determine whether deficiencies existed. According to REAC, HUD relied on independent auditors to ensure that the combined data were accurate.

While HUD had the responsibility and controls for reviewing the overall financial health of PHAs, it did not have specific controls for monitoring employee benefits. HUD’s controls included reviewing current assets to current liabilities and months of operating reserves. If PHAs failed HUD’s review, they could become troubled and require further review by HUD. Of the 69 PHAs identified in the review, 3 had a troubled designation. For one of the three troubled PHAs, the HUD field office worked with it to identify cost-saving measures in its employee benefits, including health insurance, workers’ compensation, and overtime. According to the PHA’s chief financial officer, by moving from a self-funded plan to a conventional plan with fixed costs, the PHA estimated savings of more than $1 million in fiscal year 2019 compared to fiscal year 2017. In this instance, HUD determined that employee benefits were unsustainable and worked with the PHA to reduce employee benefit contributions.

In addition, the PHAs did not always enter accurate employee benefit data into FASS-PH. For instance, at times, PHAs misclassified employee benefit contributions when entering them into the system. The data were generally entered incorrectly into FASS-PH when employee benefits from other employee types were reported under the administrative employee benefit line item, resulting in an inaccurate total. Further, in fiscal year 2017, 192 of the 3,755 PHAs reported $0 for both administrative and maintenance salaries and benefits. PHA officials stated that their independent auditors entered the entire amount of certain benefit items for all employees under the administrative benefit line item when they should have been entered under the employee benefit contribution line items for other employee types. Another PHA staff member stated that the PHA’s accounting system did not allow staff to separate employee benefit contributions by

---

7 In fiscal years 2015 and 2016, 40 and 62 PHAs fit these criteria, respectively.
8 As with any average, some PHAs’ costs were less than and some were more than the national average. Taking a conservative approach, any costs more than $100,000 over 40 percent of total compensation (a 30 percent increase over the 31 percent national average) may be unreasonable.
9 HUD measures the performance of PHAs through the Public Housing Assessment System. The system uses a 100-point method and assesses PHAs’ physical and financial condition and its management. A PHA is deemed troubled if it receives a score less than 60, and may require additional review by HUD.
10 Although 192 PHAs reported $0 for both administrative and maintenance salaries and benefits, it was not clear whether that was because the PHAs did not have salaries and benefits to report, which would seem unlikely, or whether it was due to inaccurate data entry.
employee type and HUD or the independent auditor did not make an issue of it. According to REAC, the employee benefit contribution line items reported only the total amount of benefit contributions and not the individual transaction line items, such as employee insurance, pension, and other postemployment benefit expenses, which together made up that total. It relied on independent auditors to ensure that the information was accurate and therefore, did not know when data were entered incorrectly.

**Conclusion**

PHAs generally expensed employee benefit contributions within the national average of 31 percent of total compensation. However, 69 of 3,755 PHAs expensed at least $100,000 in benefit contributions over 40 percent of total compensation. HUD did not have specific controls for reviewing the costs. Evaluating the risk that employee benefit contributions may be unreasonable and, if necessary, implementing controls to reduce that risk would provide more assurance that contributions above the national average are reasonable. Further, the PHAs did not always enter accurate financial data regarding employee benefits into FASS-PH, including 192 PHAs that entered $0 in administrative and maintenance salaries and employee benefit contributions. The financial data received by HUD were at a combined level, which prevented it from easily reviewing benefit costs without having the transaction-level detail required for a meaningful review. HUD should ensure it receives accurate financial data. As a result, HUD did not have assurance that employee benefits expensed at some PHAs were reasonable or that the data entered into FASS-PH were accurate.

**Recommendations**

We recommend that HUD’s Deputy Assistant Secretary for Public Housing and Voucher Programs

1A. Evaluate the risk that employee benefit contributions expensed at PHAs may be unreasonable and, if determined necessary, establish and implement controls to reduce or eliminate the evaluated risk.

We recommend that HUD’s Deputy Assistant Secretary for Real Estate Assessment Center

1B. Develop and implement additional guidance to ensure that PHAs enter accurate employee benefit data into FASS-PH.
Scope and Methodology

We performed our audit work from October 2018 through June 2019 at the HUD Office of Inspector General (OIG), Office of Audit, in Hartford, CT. Our audit generally covered the period January 1, 2015, to December 31, 2017. We adjusted the audit scope when necessary to review more recent employee salary and benefit data expensed at PHAs in fiscal years 2018 and 2019, and U.S. Department of Labor, Bureau of Labor Statistics, data on employer costs for employee compensation in 2018.

To accomplish our objective, we

- Reviewed Federal regulations and applicable Governmental Accounting Standards Board statements.
- Interviewed HUD and PHA staff.
- Analyzed national PHA data in FASS-PH on financial data schedule line items 91100 (administrative salaries), 94100 (maintenance salaries), 91500 (administrative employee benefit contributions), and 94500 (maintenance employee benefit contributions). We analyzed the data to determine whether PHAs expensed employee benefit contributions reasonably. The analysis resulted in the identification of 69 PHAs in fiscal year 2017 that expensed at least $100,000 in employee benefit contributions over 40 percent of total compensation. For these PHAs, the amount greater than 40 percent of total compensation equaled more than $25 million. The 69 PHAs were selected from a universe of 3,755 PHAs that expensed administrative and maintenance employee benefit contributions of more than $950 million.
- Selected a nonrepresentative sample of 15 PHAs that expensed more than $170 million in administrative employee benefit contributions from a universe of 3,755 PHAs that expensed more than $651 million in administrative employee benefit contributions to public housing and the Housing Choice Voucher Program in fiscal year 2017. The nonrepresentative sample was chosen to identify causes for higher than average employee benefits at PHAs and validate employee salary and benefit data entered into FASS-PH. We separated the universe into five groupings based on PHA unit size. We selected three PHAs from each of the five groupings to represent small and large PHAs evenly and focused on PHAs that expensed higher than average administrative employee benefit contributions. A sample was chosen rather than reviewing 100 percent of the universe because the universe was too large. We did not perform a statistical sample so we did not project the results.
To achieve our objective, we relied in part on PHA data reported in FASS-PH. We used the data to draw conclusions on employee benefits expensed at PHAs, select a sample of PHAs to determine whether employee benefits expensed were reasonable, and document causes when deficiencies existed. For our review of PHAs, we traced automated data to source documents. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.
Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization’s mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization’s mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

**Relevant Internal Controls**

We determined that the following internal controls were relevant to our audit objective:

- **Program operations** – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- **Safeguarding resources** – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- **Validity and reliability of data** – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of HUD’s internal controls.
MEMORANDUM FOR: Justin Grzyb, Acting Regional Inspector General for Audit, Boston Region, IAGA

FROM: Danielle Bastarache, Deputy Assistant Secretary for Public Housing and Voucher Programs, PE
David Vargas, Deputy Assistant Secretary for the Real Estate Assessment Center, PE


The Office of Public and Indian Housing has reviewed the Draft Audit Report and the Office of Public Housing and Voucher Programs (OHVP) and the Real Estate Assessment Center (REAC) hereby provides the attached for your consideration.

We in PIH appreciate the discussions that were provided during the conduct of this audit from your staff. Your staff was very professional in the handling of all aspects of this audit.

If you have any questions, please don’t hesitate to contact me at 202-402-5264.

Attachments
PIH Comments on the OIG Draft Report:

PIH provides the following comments:

Comment 2

1. Overall, PIH is concerned with OIG’s finding that HUD has a role in determining reasonable costs associated with PHA administrative employee benefit contributions. OIG cites as a requirement, 2 CFR 200.431 which states that “…the cost of fringe benefits are allowable provided that the benefits are reasonable, and are required by law, non-Federal entity-employee agreement, or an established policy of the non-federal entity.” PIH does not believe it is appropriate to establish a limit on the amount of contributions for employee benefits that are governed by state/local law, contract, or other agreements.

As background, HUD does not mandate or require any specific employee benefits associated with the administration of the public housing program. The decision to provide such benefits are determined locally by PHA Boards of Directors or by state/local law. In some cases, PHA participation in state/local pension plans are mandated by state/local law, and the amount that PHAs are required to contribute are based on the terms of the pension agreements, as updated periodically through reviews of pension solvency. In other cases, employee benefits are determined based on local markets in order to compete with other employers for qualified staff. This is no different for PHAs than any other local employer, including those that receive other types of Federal funding governed by 2 CFR 200.431.

Comment 3

PHAs incur costs for numerous items and activities including employee salaries and benefits, maintenance, utilities, etc. HUD has historically not involved itself in determining reasonable costs for such items. Instead, HUD relies on PHAs to determine whether the costs they are paying are reasonable, and to make efforts to align costs within the local market. As an analog, it may be the case that maintenance costs in one locality are twice that of another locality, but both may be reasonable based on the specific locality and market rates for such services. HUD does not believe that pension costs are different.

Comment 4

To pay for such costs, HUD provides funding to PHAs for the public housing program through the Operating Fund. The Operating Fund is a formula-based subsidy which was determined based on a cost study of the costs to operate “well-run public housing.” The formula has two major components – the Project Expense Level (PEL) and the Utilities Expense Level – which, along with tenant rents, pay for the cost to operate public housing. The PEL has a specific inflation factor which considers changes in state/local wages, and was determined by the operating cost study. The operating cost study considered whether to factor in the cost of state/local pensions, but ultimately it was determined that PHAs would not be provided subsidy for employee benefit costs that were higher than the formula allowed. The net effect of that is that if a PHA has such
higher benefit costs, that PHA would need to fund such costs with other funds outside of the Operating Fund.

If a PHA’s costs begin to exceed their revenues, regardless of whether the cause is higher than average benefit costs, other operating costs, etc., that PHA will be unable to sustain these costs for the long-term, and the agency will become financially troubled. PHAs that become financially troubled are referred to HUD for action including HUD reviews of expenses and other HUD actions to help the PHA bring costs in line with revenues. In some cases, extreme financial distress can result in HUD taking over an agency. In these extreme cases, HUD has broad authority to take actions to reduce costs including altering or renegotiating such employee benefits.

2. HUD is also concerned about the implications for limiting the amount of Federal funds that can be used to pay for employee benefit plans. PHAs are not the only non-Federal recipients of Federal funding that participate in employee benefit plans, including state/local pension plans. In OIG’s analysis, there is no information about similar reasonableness restrictions made by other similar Federal agencies, and no such standard across the Federal government. HUD questions whether such an analysis has been done at this point, and if not, for clarity about whether OIG researched this issue across other agencies.

Given that most state and local governments receive some Federal funding, and many of these agencies also participate in state/local benefit plans HUD is concerned that this is setting a dangerous precedent that could lead to similar restrictions across the Federal government. As such, this type of restriction could lead to already-underfunded pension plans becoming insolvent.

3. HUD questions whether OIG analysis of a benchmark to a point in time study performed by the Bureau of Labor Statistics (BLS) and the information contained therein is sufficient for this analysis. Specifically, HUD is curious why OIG chose the “average employee benefit cost per employee hour worked” as the benchmark for this study. HUD looked at the most recent news release from BLS (March 2019), which provides this information both on average and in different percentiles. In this release, it is highlighted that the median percentage of employee benefits to salaries was actually 51 percent, which is more similar to the findings of the OIG using nationwide PHA data. HUD is concerned that the use of averages rather than median could have the effect of reducing the benchmark if there is a different distribution of localities within the BLS data when compared to the distribution of PHAs. For example, if there are a larger number of localities with no pensions when compared to PHAs, that could reduce the compensation benchmark, and thus produce a potentially invalid comparison. HUD believes a more robust analysis is necessary before determining an appropriate benchmark for PHAs.

<table>
<thead>
<tr>
<th>Comment 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>If a PHA’s costs begin to exceed their revenues, regardless of whether the cause is higher than average benefit costs, other operating costs, etc., that PHA will be unable to sustain these costs for the long-term, and the agency will become financially troubled. PHAs that become financially troubled are referred to HUD for action including HUD reviews of expenses and other HUD actions to help the PHA bring costs in line with revenues. In some cases, extreme financial distress can result in HUD taking over an agency. In these extreme cases, HUD has broad authority to take actions to reduce costs including altering or renegotiating such employee benefits.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comment 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. HUD is also concerned about the implications for limiting the amount of Federal funds that can be used to pay for employee benefit plans. PHAs are not the only non-Federal recipients of Federal funding that participate in employee benefit plans, including state/local pension plans. In OIG’s analysis, there is no information about similar reasonableness restrictions made by other similar Federal agencies, and no such standard across the Federal government. HUD questions whether such an analysis has been done at this point, and if not, for clarity about whether OIG researched this issue across other agencies. Given that most state and local governments receive some Federal funding, and many of these agencies also participate in state/local benefit plans HUD is concerned that this is setting a dangerous precedent that could lead to similar restrictions across the Federal government. As such, this type of restriction could lead to already-underfunded pension plans becoming insolvent.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comment 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. HUD questions whether OIG analysis of a benchmark to a point in time study performed by the Bureau of Labor Statistics (BLS) and the information contained therein is sufficient for this analysis. Specifically, HUD is curious why OIG chose the “average employee benefit cost per employee hour worked” as the benchmark for this study. HUD looked at the most recent news release from BLS (March 2019), which provides this information both on average and in different percentiles. In this release, it is highlighted that the median percentage of employee benefits to salaries was actually 51 percent, which is more similar to the findings of the OIG using nationwide PHA data. HUD is concerned that the use of averages rather than median could have the effect of reducing the benchmark if there is a different distribution of localities within the BLS data when compared to the distribution of PHAs. For example, if there are a larger number of localities with no pensions when compared to PHAs, that could reduce the compensation benchmark, and thus produce a potentially invalid comparison. HUD believes a more robust analysis is necessary before determining an appropriate benchmark for PHAs.</td>
</tr>
</tbody>
</table>
Comment 1 HUD addressed its Memorandum to Justin Grzyb, who was the Acting Regional Inspector General for Audit, Boston Region, at that time. This final report is being issued and signed by Todd M. Hebert, who is the Acting Regional Inspector General for Audit, Boston Region, at this time.

Comment 2 HUD expressed concern with our finding that it has a role in determining reasonable costs associated with PHA employee benefit contributions. HUD stated that it does not require any specific employee benefits associated with the administration of the public housing program and does not believe that it is appropriate for it to establish a limit on the amount of contributions for employee benefits that are governed by State and local law, contracts, or other agreements.

We disagree with HUD that it does not have a role in determining reasonableness of employee benefit contributions. We do, however, acknowledge the external factors and complexities outside of the Department’s control that would make determining the reasonableness of employee benefit contributions for each PHA difficult. Therefore, we revised our recommendation to provide HUD more flexibility to evaluate the risk that employee benefit contributions may be unreasonable and, if necessary, to implement controls to reduce that risk. To provide better context, we also incorporated 2 CFR 200.300(a) into the final report. As regulated by 2 CFR 200.300(a), HUD, as the Federal awarding agency, “must manage and administer the Federal award in a manner so as to ensure that Federal funding is expended and associated programs are implemented in full accordance with U.S. statutory and public policy requirements”. One such relevant public policy requirements is employee benefits are allowable, provided they are reasonable, as stated in 2 CFR 200.431(a). Although we concede that the PHAs would make the initial determination of reasonableness, HUD, as the awarding agency, is required to ensure that PHAs expend grant funds in full compliance with 2 CFR part 200 and all relevant statutory and public policy requirements. We do agree with HUD that it would not be appropriate to establish a limit on the amount of contributions for employee benefits. We are not recommending that HUD establish a limit on benefit contributions. We also acknowledge that the decision to provide benefits is determined by State and local law, contracts, or other agreements. By evaluating the risk that employee benefit contributions expensed at PHAs may be unreasonable, HUD would be afforded the ability to assess that risk and, if necessary, implement controls to reduce it.

Comment 3 HUD stated that PHAs incur costs for numerous items and activities including employee salaries and benefits, maintenance, utilities, etc. and that it has not historically involved itself in determining reasonable costs for such items. Instead, HUD relies on PHAs to determine whether the costs they are paying are reasonable and does not believe that pension costs are different.
We disagree with HUD that it does not have a role in determining reasonableness of employee benefit contributions. Although we concede that the PHAs would make the initial determination of reasonableness, HUD, as the awarding agency, is required to ensure that PHAs expend grant funds in full compliance with 2 CFR part 200 and all relevant statutory and public policy requirements. 2 CFR 200.431(a) states that employee benefits are allowable, provided they are reasonable. HUD should evaluate the risk that employee benefits may be unreasonable and, if necessary, implement controls to reduce that risk.

Comment 4

HUD stated that to pay for employee benefit costs at PHAs, it provides funding for the public housing program through the Operating Fund, a formula-based subsidy based on a cost study of the costs to operate “well-run public housing.” HUD stated that the cost study considered whether to factor in the cost of State and local pensions, but ultimately it was determined that PHAs would not be provided subsidy for employee benefit costs that were higher than the formula allowed. HUD contended that the net effect was that if a PHA has higher benefit costs, it would need to fund the costs with other funds outside of the Operating Fund.

We disagree that just because State and local pension costs were not factored into the operating subsidy calculation, PHAs that expense higher than average employee benefits would need to fund it through other sources. The majority of PHA funding comes from Federal sources and allowing PHAs to determine whether the benefit costs they are paying are reasonable without any HUD oversight puts Federal funds at risk. As employee benefit costs continue to increase, PHAs may begin using more Federal funding to pay for those benefit costs instead of using that funding for its intended purpose. Evaluating the risk that employee benefits may be unreasonable would provide HUD with a proactive approach to ensure PHAs do not expense an unreasonable amount of employee benefits.

Comment 5

HUD stated that if a PHA’s costs begin to exceed their revenues, regardless of whether the cause is higher than average benefits costs or other operating costs, that PHA will be unable to sustain these costs for the long-term and the agency will become financially troubled. PHAs that become financially troubled are referred to HUD for action including HUD reviews of expenses, other HUD actions to help the PHA bring costs in line with revenues, and in some extreme cases, HUD taking over an agency.

We agree that if a PHA’s costs begin to exceed their revenues, the PHA will be unable to sustain these costs for the long-term and the agency will become financially troubled. We believe this is exactly why HUD should be involved in reviewing employee benefit costs as a matter of practice. Waiting for a PHA to become financially troubled to review these costs is not proactive. By evaluating the risk that employee benefits may be unreasonable, HUD could assist PHAs from becoming troubled to begin with.
Comment 6  HUD expressed concern about the implications for limiting the amount of Federal funds that can be used to pay for employee benefit plans. HUD stated that in OIG’s analysis there is no information about similar reasonableness restrictions made by other Federal agencies, and no such standard across the Federal government. HUD is concerned that this is setting a dangerous precedent that could lead to similar restrictions across the Federal government resulting in already underfunded pension plans becoming insolvent.

We understand HUD’s concerns about the implications of limiting the amount of Federal funds that can be used to pay for employee benefit plans. However, our finding and recommendations within this report do not express any intent of limiting the amount of Federal funds that can be used to pay employee benefits. Our concern is ensuring employee benefits are reasonable, which would protect Federal funds from being used for unreasonable costs. We did not review other similar Federal agencies and disagree that ensuring employee benefit costs are reasonable sets a dangerous precedent.

Comment 7  HUD questioned whether OIG’s analysis of a benchmark to a point in time study performed by the Bureau of Labor Statistics (BLS), and the information contained therein is sufficient for this analysis. HUD stated that it is curious why OIG chose the average employee benefit cost per employee hour worked as a benchmark for this study. HUD stated it looked at the most recent news release from BLS (March 2019), which provided information both on the average and in different percentiles. According to HUD, this release highlighted that the median percentage of employee benefits to salaries was actually 51 percent. HUD is concerned that our use of averages rather than median could have the effect of reducing the benchmark if there is a different distribution of localities within the BLS data when compared to the distribution of PHAs. HUD believes a more robust analysis is necessary before determining an appropriate benchmark for PHAs.

We relied on data from BLS to establish a benchmark. When we began our review in October 2018, we chose the most current BLS data available at the time (June 2018) because it best aligned with the FASS-PH fiscal year 2017 data we reviewed. We also reviewed employee benefits as a percentage of total compensation which was consistent with how the data were presented in the BLS news release. Reviewing employee benefits as a percentage of salaries, as stated in HUD’s comments, would generate significantly different results and, therefore, would not be comparable to our review. Further, our finding focuses on HUD’s lack of controls to determine the reasonableness of employee benefits, and that the employee benefit data entered into FASS-PH were not always accurate. Had we used a benchmark similar to the one described by HUD, this report would contain the same recommendations. We agree that a more robust analysis of HUD funding expensed for employee benefits at PHAs would be helpful in determining reasonableness. Our recommendations provide HUD the flexibility
to make these determinations and implement effective controls over employee benefit contributions expensed at PHAs going forward.